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**Public Debt and Fiscal Space in Sierra Leone: An Analysis of the FY 2026
Appropriation Act**

Abubakarr Benson



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^{1*}Abubakarr Benson

Department of Economics and Commerce, Fourah
Bay College, University of Sierra Leone

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Abstract

Purpose: Sierra Leone’s FY2026 Appropriation Act reveals a fiscal structure in which public debt servicing exerts strong pressure on fiscal space. This paper examines how debt-service obligations constrain the government’s ability to finance key development sectors, using the FY2026 national budget as the central analytical reference.

Methodology: The study adopts a qualitative and document-based analytical approach, drawing on data from official Ministry of Finance documents, including the FY2026 Appropriation Act, Budget Estimates, and IMF–World Bank debt sustainability assessments. The analysis shows that with NLe 8.63 billion allocated to debt charges out of a NLe 27.72 billion Consolidated Fund appropriation, debt servicing absorbs nearly 31% of available resources. When considered within the broader NLe 30 billion expenditure-plus-net-lending envelope, debt servicing still accounts for about 29% of total government spending.

Findings: The findings indicate that rising debt-service obligations increase rollover risks, restrict fiscal space, and limit the government’s capacity to invest in essential sectors such as education, health, agriculture, water, and public infrastructure.

Unique Contribution to Theory, Practice and Policy: The paper concludes that strengthening revenue mobilisation, improving debt management strategies, and prioritising concessional borrowing are necessary to expand fiscal space and support sustainable development.

Keywords: *Public Debt, Fiscal Space, Budget Analysis, Sierra Leone, Debt Servicing, Development Finance*

JEL Classification: *H63, H61, H62, O23*

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INTRODUCTION

Public debt has become a defining feature of fiscal policy in many low-income economies, particularly those facing persistent revenue constraints and rising development needs. In Sierra Leone, public borrowing has historically been employed as a mechanism to finance reconstruction, stabilise public finances, and support economic recovery. However, the growing scale of debt servicing has increasingly reshaped budgetary priorities, raising concerns about fiscal sustainability and the government's capacity to fund essential social and productive sectors.

The FY2026 Appropriation Act provides a clear illustration of this challenge. Public debt charges amount to NLe 8,626,934,400, representing a substantial share of government resources. When measured against the NLe 27.72 billion Consolidated Fund appropriation, debt servicing absorbs approximately 31 percent of total authorised expenditure. Even when considered within the broader expenditure-plus-net-lending envelope of about NLe 30 billion, debt charges still account for roughly 29 percent. These figures indicate that nearly one-third of fiscal capacity is pre-committed to servicing existing obligations before allocations are made to other national priorities.

This level of debt servicing has important implications for fiscal space. Fiscal space refers to the government's ability to undertake discretionary spending without undermining fiscal sustainability. In the presence of large and largely non-discretionary debt obligations, this space becomes increasingly constrained. Resources that could otherwise support investments in education, health, agriculture, water and sanitation, infrastructure, and employment-related programmes are instead directed toward meeting past borrowing commitments. This level of debt servicing is particularly significant when viewed against international debt sustainability benchmarks. Under the IMF–World Bank Debt Sustainability Framework for Low-Income Countries (LICs), elevated debt-service burdens relative to government revenue are widely regarded as indicators of increasing fiscal vulnerability and reduced policy flexibility (IMF & World Bank). In practical terms, the scale of debt servicing represents a substantial opportunity cost for development spending. Consequently, a growing portion of Sierra Leone's fiscal resources is increasingly shaped by past borrowing commitments rather than current development priorities, reinforcing pressures on fiscal space and long-term economic development.

Beyond its immediate budgetary impact, sustained high debt servicing also raises broader macroeconomic concerns. Heavy reliance on domestic borrowing, particularly short-term instruments can elevate interest costs and crowd out private sector credit, while external debt servicing exposes the budget to exchange-rate and balance-of-payments pressures. Together, these dynamics risk reinforcing a cycle in which limited fiscal space constrains growth-enhancing investment, weakens revenue mobilisation, and increases future dependence on borrowing.

This paper examines the structure and implications of public debt servicing in Sierra Leone using the FY2026 Appropriation Act as its central analytical reference. Drawing directly from official budget documents – including the Appropriation Act, Budget Estimates, Budget Speech, and Summary Expenditure Reports – the study assesses how the scale of debt repayment affects fiscal space and the government's capacity to fund social and economic priorities. The analysis situates Sierra Leone's fiscal experience within established theoretical and empirical literature on debt overhang, fiscal constraints, and debt sustainability, while also incorporating comparative insights from recent fiscal years.

The central argument advanced is that while public borrowing remains an important fiscal instrument, the current trajectory of debt servicing poses a significant constraint on fiscal autonomy. Without more strategic debt management and strengthened revenue mobilisation, public debt risks shifting from a development-enabling tool to a structural impediment to inclusive growth. The FY2026 budget figures make this tension explicit and underscore the urgency of policy choices aimed at stabilising the debt path while protecting essential development expenditure.

Statement of the Problem

Despite successive fiscal reforms and episodes of debt relief, Sierra Leone continues to face rising public debt and increasing debt-service obligations. In the FY2026 fiscal year, public debt servicing absorbs a substantial share of government resources, exerting sustained pressure on fiscal space and limiting budgetary flexibility. More critically, the growth in debt-service obligations increasingly outpaces the expansion of domestic revenue mobilisation, creating a structural imbalance within the fiscal framework. As a result, a growing proportion of government revenue is pre-committed to servicing past borrowing, reducing the government's capacity to allocate resources toward priority social and productive sectors such as education, health, agriculture, water and sanitation, and employment-related programmes. Although public borrowing has historically been justified as a mechanism for financing development and supporting macroeconomic stabilisation, the current trajectory of debt servicing suggests a shift toward obligation-driven fiscal management. Debt charges have increasingly become non-discretionary expenditures, limiting the scope of fiscal policy to respond to development needs and economic shocks.

The core problem addressed in this study is the limited budget-level empirical analysis of how public debt servicing directly constrains fiscal space in Sierra Leone. Existing discussions often rely on aggregate debt sustainability indicators, with insufficient attention to the annual budgetary trade-offs created by debt servicing. This gap weakens evidence-based policy debate on the extent to which public debt restricts development-oriented expenditure.

Objectives of the Study

The primary objective of this study is to examine the relationship between public debt servicing and fiscal space in Sierra Leone, using the FY2026 Appropriation Act as the central analytical reference.

The specific objectives are to:

- Analyse the structure and magnitude of public debt servicing in the FY2026 national budget.
- Assess the share of fiscal resources absorbed by debt charges relative to the total expenditure-plus-net-lending envelope.
- Examine the implications of debt servicing for allocations to key social and productive sectors.
- Compare FY2026 debt-service patterns with recent fiscal years to identify emerging fiscal trends.
- Derive policy-relevant insights for improving fiscal space management and debt sustainability.

Research Questions

This study addresses the following research questions:

- What is the scale and composition of public debt servicing in the FY2026 Appropriation Act?
- How does public debt servicing affect Sierra Leone's fiscal space when measured against the total expenditure-plus-net-lending envelope?
- To what extent does rising debt servicing constrain allocations to social and productive sectors?
- How do FY2026 debt-service patterns compare with those of FY2024 and FY2025?
- What policy options exist to mitigate fiscal space constraints arising from high debt servicing?

LITERATURE REVIEW

Public debt and fiscal space have been central themes in development macroeconomics for decades, particularly in low-income economies where persistent financing gaps, limited revenue capacity, and recurrent shocks create structural pressures on public finance. The literature surrounding these themes is broad, encompassing debt overhang theory, fiscal space measurement, the crowding-out effect, domestic–external debt composition, and the developmental consequences of high debt-servicing obligations. This section reviews these strands of theoretical and empirical literature, and positions Sierra Leone's fiscal situation within them.

Theoretical Review

Keynesian Theory of Public Borrowing

The Keynesian theory of public borrowing provides the foundational justification for government debt in economic management. According to Keynes, public borrowing can support economic activity when it finances expenditure that stimulates aggregate demand, particularly during periods of underemployment or economic slack. In this framework, borrowing does not necessarily crowd out private investment; rather, it can raise output and income through the multiplier effect.

The basic national income identity is expressed as:

$$Y = C + I + G + (X - M)$$

Where:

Y = denotes national income

C = consumption

I = investment

G = government expenditure, and

(X - M) = net exports.

An increase in government expenditure financed through borrowing leads to a change in output given by:

$$\Delta Y = k\Delta G \quad \text{where } k = \frac{1}{1 - b}$$

...where (b) denotes the marginal propensity to consume.

However, the Keynesian argument rests on a critical assumption: that borrowed funds expand productive government expenditure. When borrowing primarily finances debt servicing rather

than new spending, the multiplier mechanism weakens. In such cases, borrowing does not expand fiscal space but instead reinforces fiscal rigidity. This distinction is central to the FY2026 budget, where a large share of government resources is devoted to servicing past obligations rather than financing growth-enhancing expenditure.

Debt Overhang Theory and Growth Constraints

Debt overhang theory remains one of the earliest and most influential frameworks for understanding how excessive public debt affects economic performance. Krugman (1988) and Sachs (1989) argue that once a country's debt burden becomes sufficiently large, private economic agents expect future taxation to rise in order to service the debt. This expectation discourages private investment, depresses capital accumulation, and slows economic growth. The economy becomes trapped in a cycle in which heavy obligations undermine the very growth required to repay them.

In its simplest form, economic output can be expressed as:

$$Y = f(K, L)$$

Where:

$$\begin{aligned} Y &= \text{output,} \\ K &= \text{capital, and} \\ L &= \text{labour} \end{aligned}$$

Investment decisions depend on expected after-tax returns. When public debt rises, expected future taxation increases:

$$\tau_e = g(D), \quad \frac{\partial \tau_e}{\partial D} > 0$$

Where:

$$\begin{aligned} \tau_e &= \text{expected future tax burden} \\ D &= \text{public debt} \end{aligned}$$

As expected taxation rises, private investment declines:

$$\frac{\partial I}{\partial D} < 0$$

The implication is that high debt suppresses growth by discouraging capital accumulation. In countries with narrow domestic revenue bases such as Sierra Leone, the implications are particularly severe. Low-income economies often rely on borrowing to finance recurrent operations, making their debt stocks grow faster than the productive capacity of the economy. The result is a long-term drag on growth and a structural imbalance between debt obligations and economic fundamentals. This is reflected in Sierra Leone's rising debt-service-to-revenue ratio, which remains elevated compared to regional peers.

Debt overhang theory has since been expanded by several scholars who emphasise its relevance in low-income, highly indebted economies. The central idea is that once public debt reaches a critical threshold, additional borrowing yields diminishing or even negative returns because it weakens confidence in the government's fiscal position (Pattillo, Poirson, & Ricci, 2004). Investors become more cautious, credit conditions tighten, and governments are forced to allocate an increasing share of revenue to servicing existing obligations instead of financing

growth-enhancing spending. In this environment, even productive investments may fail to deliver expected benefits because the macroeconomic conditions surrounding them are unstable.

For Sierra Leone, where nearly one-third of the FY2026 budget is committed to debt charges, the risk of debt overhang is not hypothetical. It is already visible in reduced fiscal flexibility, weak public investment, and persistent underfunding of social and economic sectors. The country's limited domestic revenue base further sharpens these constraints, meaning that every increase in debt-service payments directly reduces the resources available for development priorities. This dynamic mirrors the wider empirical finding that heavily indebted countries often experience slower growth, weaker investment climates, and prolonged fiscal stress.

Fiscal Space and Budget Constraint Theory

Closely related to debt overhang is the concept of fiscal space, defined as the government's capacity to allocate resources for discretionary spending without undermining fiscal sustainability (Heller, 2005). In practical terms, fiscal space expands when governments can raise additional revenues, reduce waste, lower debt-service burdens, secure concessional financing, or reprioritise expenditures. Conversely, fiscal space is constrained when debt obligations rise, revenue growth stagnates, or borrowing terms worsen.

The budget constraint can be expressed as:

$$FS = R - (DS + W + O)$$

Where:

- FS* = fiscal space,
- R* = total revenue,
- DS* = debt service
- W* = wages and salaries, and
- O* = other mandatory expenditures.

An increase in debt service mechanically reduces fiscal space

$$\frac{\partial FS}{\partial DS} < 0$$

This identity highlights why rising debt service is not merely a financial issue but a structural constraint on policy choices. Even where total expenditure expands, higher debt servicing reduces the resources available for development-oriented spending. The FY2026 Appropriation Act illustrates this dynamic, with debt charges absorbing a large share of the fiscal envelope before sectoral allocations are determined.

In many developing countries, debt-service ratios have increased rapidly since 2010, reversing the gains achieved after the HIPC and MDRI debt-relief initiatives. According to the World Bank (2023), public debt servicing now consumes more than 20% of government revenues in over one-third of low-income countries. Sierra Leone's commitment of nearly one-third of its fiscal envelope to debt servicing places it well above this threshold.

Several authors (Greenidge et al., 2012; Presbitero, 2012) argue that fiscal space must be understood not only as a current budgetary condition but also as a medium-term pathway. This implies that countries with high debt burdens face limited flexibility in responding to shocks, implementing development plans, or pursuing countercyclical fiscal policy. In practice, they often resort to further borrowing, increasing their vulnerability.

Debt Servicing and the Crowding-Out of Social and Development Expenditure

A significant body of empirical work confirms that high debt-service burdens crowd out social spending. Aizenman and Jinjark (2010), analysing public expenditure patterns across developing countries, find that states with large debt-service commitments allocate a smaller share of their budgets to education, health, and infrastructure. Similar patterns are documented in studies by Oxfam (2022) and UNCTAD (2020), which show that when a government commits a rising share of its resources to interest and amortisation payments, the fiscal space available for development priorities diminishes.

The mechanism behind this trend is straightforward. Since governments must honour debt-service obligations, these payments become mandatory claims on revenue – claims that take precedence over discretionary spending. As the share of revenue absorbed by debt service increases, less is available for public investment, human capital development, and poverty-reduction measures. These findings align with the fiscal realities reflected in Sierra Leone’s FY 2026 appropriation budget, where NLe 8.63 billion, equivalent to 31% of the approved expenditure, is committed to debt servicing. This level of dedication to debt repayment inevitably reduces allocations to sectors such as health, education, agriculture, water, energy, and social protection. It also supports the argument that debt servicing has become a structural constraint rather than a short-term fiscal phenomenon.

This relationship is also consistent with the theoretical insights of the Debt Laffer Curve, which suggests that beyond a certain threshold, rising debt burdens may reduce rather than enhance fiscal capacity by discouraging investment and weakening economic growth (Krugman, 1988; Sachs, 1989). In such circumstances, governments may face declining revenue performance even as debt-service obligations expand, further tightening fiscal constraints. From a fiscal accounting perspective, the government’s available fiscal space can be expressed as the difference between total revenue and mandatory commitments. In simplified terms, fiscal space can be represented as:

$$FS = R_t + G_t - (DS_t + ES_t)$$

Where:

R_t = represents government revenue

G_t = denotes grants

DS_t = refers to debt-service obligations, and

ES_t = captures essential non-discretionary expenditure.

As debt servicing increases relative to available revenue, the fiscal space available for discretionary development spending correspondingly declines.

Empirical Review

Debt Composition: Domestic vs External Borrowing

Debt composition plays a central role in determining fiscal vulnerability. Panizza (2008) notes that domestic debt, while useful for mobilising local savings and supporting financial development, often carries higher interest rates and shorter maturities than external concessional debt. Short-term domestic instruments, particularly treasury bills, create rollover risk, where governments must refinance maturing obligations frequently. This exposes the budget to interest rate volatility and liquidity shortages.

Arnone and Presbitero (2006) similarly emphasise that excessive reliance on short-term domestic borrowing can destabilise an economy by tightening credit conditions in domestic

financial markets. Banks holding large quantities of government securities may reduce lending to the private sector, limiting private investment and worsening growth prospects. This phenomenon, widely referred to as “crowding out,” is relevant in Sierra Leone, where the banking sector holds a significant share of domestic government securities.

External concessional borrowing – though cheaper and long-term, brings its own vulnerabilities. Debt denominated in foreign currency exposes countries to exchange-rate depreciation. Easterly (2021) shows that in Sub-Saharan Africa, exchange-rate shocks can dramatically raise the cost of servicing external debt, forcing governments to divert scarce revenue from service delivery toward repayment.

Sierra Leone’s debt profile reflects a blend of these risks. Although the proportion of concessional external debt remains high, the country continues to hold a large volume of short-term domestic instruments. This combination heightens fiscal exposure, consistent with IMF–World Bank assessments categorizing Sierra Leone as high risk of debt distress.

Debt Distress and Macro-Financial Vulnerability

IMF–World Bank debt sustainability analyses classify several African countries, including Sierra Leone, as facing a high risk of debt distress. Indicators include:

- rising debt-service-to-revenue ratios
- increasing share of domestic borrowing
- narrow export revenue base
- limited resilience to external shocks
- persistent fiscal deficits

Debt distress reduces macroeconomic stability and weakens the government’s ability to respond to crises. In such contexts, discretionary spending declines while debt servicing increases.

Debt Servicing and Social Sector Allocations

A growing empirical literature demonstrates that rising debt service reduces allocations to social sectors. Woo and Kumar (2015) find that public debt accumulation systematically lowers spending on education and health in developing economies. Similarly, World Bank (2023) evidence shows that debt service crowds out capital expenditure more severely than recurrent spending.

This trade-off can be expressed as:

$$S = T - DS$$

Where:

S = spending available for social and productive sectors, and

T = total fiscal resources.

DS = debt services

As debt service increases, available sectoral spending declines unless revenues rise proportionally. The FY2026 budget reflects this pattern, with social sector allocations constrained relative to the scale of debt charges.

Furthermore, studies in sub-Saharan Africa show a clear link between high debt servicing and reduced investment in:

- Education (lower teacher recruitment, inadequate learning materials)
- Health (reduced capital spending on hospitals and medical equipment)
- Agriculture (limited extension services, weak value chains)
- Infrastructure (slow progress on roads, energy, and water)

High debt service not only reduces funding but also weakens planning consistency. When governments face fiscal pressure, capital projects are often the first to be delayed or suspended.

Public Investment, Human Capital, and Long-Term Growth

Public investment in infrastructure, education, and health is widely recognised as a key driver of long-term economic growth. Aschauer's (1989) foundational work shows that public capital spending generates productivity gains across the economy. More recent evidence from Sub-Saharan Africa (Calderón & Servén, 2010) indicates that investment in energy, transport, and water infrastructure has strong growth effects.

However, when debt servicing absorbs a large share of public expenditure, governments reduce capital expenditure first, followed by social spending. This is consistent with Sierra Leone's budget patterns, where capital allocations frequently fall below planned levels due to cash constraints caused by debt-service priorities. The result is a long-term drag on growth, reduced competitiveness, and slower human development.

High debt burdens also limit investment in health and education. Baldacci et al. (2008) show that declining social expenditure weakens human capital formation and reduces future economic potential. In Sierra Leone, the fiscal prioritisation of debt service over human development spending can therefore have long-term implications.

Empirical Evidence from African Low-Income Economies

Empirical studies (Presbitero, 2012; Were, 2021) show that countries allocating more than 20-25% of their budget to debt servicing tend to:

- have slower economic growth
- experience reduced investment in capital projects
- face more frequent fiscal crises
- maintain lower social-spending ratios

Sierra Leone's FY2026 level (29–31%) exceeds this threshold, aligning with the pattern observed in the literature.

The Researcher's Prior Literature Review and Contextual Contribution

The researcher's earlier study (Benson, 2025) made four key arguments:

- Domestic borrowing supports growth but must still be managed wisely because it can become too costly if it grows too large.
- Domestic borrowing is useful for stability, but only when long-term instruments dominate.
- Short-term treasury bills create rollover pressures and fiscal unpredictability.
- External borrowing must be concessional and development-focused to remain sustainable.

The FY 2026 budget figures, especially the NLe 8.63 billion debt-service allocation – appear to confirm these earlier concerns. This validates the argument that Sierra Leone's fiscal

position is increasingly shaped by the structure and cost of its debt, rather than by planned development priorities.

This dynamic is also reflected in domestic credit conditions in Sierra Leone. As government reliance on domestic borrowing increases, commercial banks often allocate a larger share of their portfolios to government securities, which are perceived as lower-risk investments. This process can place upward pressure on lending rates in the banking sector and reduce the availability of affordable credit for private-sector borrowers. In practice, relatively high prime lending rates in Sierra Leone's banking system make it difficult for businesses and entrepreneurs to access financing, reinforcing the crowding-out effect whereby government borrowing indirectly constrains private investment and economic expansion.

Research Gap

Despite the extensive literature on public debt and fiscal space, most existing studies focus on cross-country debt sustainability indicators or long-term macroeconomic relationships. Limited attention has been given to the interaction between public debt servicing and the structure of annual national budgets in low-income economies. In the case of Sierra Leone, existing discussions largely rely on aggregate debt statistics and macroeconomic indicators, with little empirical analysis of how debt servicing influences fiscal space within the national budget. This study addresses this gap by examining the FY2026 Appropriation Act as a fiscal dataset to analyse how public debt servicing shapes budgetary priorities and constrains development-oriented expenditure in Sierra Leone.

Summary of Key Insights

The reviewed literature converges on several interrelated mechanisms through which rising public debt servicing constrains fiscal and economic policy in developing economies. Debt overhang theory suggests that high debt burdens weaken investment incentives and slow capital accumulation by increasing expectations of future taxation and fiscal adjustment. At the same time, growing debt-service obligations crowd out social and development expenditure as governments allocate larger shares of revenue to mandatory debt repayments. When debt structures rely heavily on short-term domestic instruments, rollover risks and interest costs intensify, further tightening fiscal constraints. Taken together, these dynamics suggest that Sierra Leone's fiscal environment increasingly reflects elements of fiscal dominance, where the scale and structure of public debt obligations begin to shape broader macroeconomic policy choices. In such circumstances, fiscal pressures linked to debt servicing can limit policy flexibility and influence both budgetary priorities and financial-sector conditions.

METHODOLOGY

This study adopts a qualitative, analytical, and document-based research methodology suitable for examining Sierra Leone's fiscal position and public debt structure. The methodological approach focuses on interpreting official budget data, assessing trends in debt servicing, and aligning these findings with established theories of fiscal space, debt sustainability, and public finance.

The analysis is grounded in three main pillars:

- Primary fiscal documents produced by the Government of Sierra Leone
- Secondary analytical and empirical literature
- Comparative evaluation using standard debt-sustainability frameworks

This approach is appropriate for a study of this nature since Sierra Leone's fiscal structure is documented annually through publicly accessible financial statements, and debt-servicing obligations are clearly defined in official reports.

Data Sources

Primary Government Documents

The core data for this study come from the FY 2026 Appropriation Act and the FY 2026 Budget Speech and Estimates, all issued by the Ministry of Finance. These documents provide:

- Total appropriation (NLe 27,717,307,300)
- Public debt charges (NLe 8,626,934,400)
- Domestic vs external interest obligations
- Economic classifications of expenditure
- Fiscal policy priorities
- Revenue projections
- Debt-sustainability considerations

The Appropriation Act is the legally binding document authorising government expenditure, while the 'Budget Speech' and 'Estimates' provide policy context, detailed allocations, and breakdowns necessary for comparative analysis. These government documents form the factual foundation of the paper. Together, they allow for a systematic assessment of how debt servicing influences budget allocations. They also provide the empirical basis for evaluating fiscal space pressures within the FY2026 budget framework.

Debt Sustainability Assessments

To contextualise Sierra Leone's debt obligations, the study draws on:

- IMF–World Bank Joint Debt Sustainability Analyses (DSA)
- World Bank fiscal risk assessments
- IMF Article IV reports

These assessments provide a consistent methodology for classifying the country as “high risk of debt distress,” identifying vulnerabilities in external and domestic borrowing. This allows the paper to interpret Sierra Leone's FY 2026 debt-service burden within global debt-sustainability frameworks.

Academic and Empirical Literature

The literature reviewed in Section 2 provides the analytical foundation for this study and informs both the selection of variables and the interpretation of results. Theoretical contributions, particularly debt overhang theory, establish the link between high public debt burdens and weakened economic performance by highlighting how expectations of future fiscal adjustment suppress private investment and growth. This framework is central to understanding the macroeconomic implications of Sierra Leone's rising debt-service obligations.

The crowding-out literature further clarifies the transmission mechanism through which elevated debt servicing constrains fiscal space. Empirical studies demonstrate that when debt repayments absorb a large share of government resources, discretionary spending on social services and public investment is reduced. This insight directly guides the comparative assessment of debt charges relative to allocations for education, health, agriculture, and other development-oriented sectors.

Research on domestic versus external borrowing contributes to the evaluation of debt composition and risk exposure. While external concessional loans are generally associated with lower interest costs, they introduce foreign-exchange risk. Domestic borrowing, particularly through short-term instruments, raises interest costs and rollover risk. These distinctions shape the study's examination of Sierra Leone's debt-service structure and its fiscal implications.

Studies on fiscal space and debt composition provide additional empirical grounding, emphasising that fiscal sustainability depends not only on the level of debt but also on its maturity profile, interest structure, and interaction with revenue capacity. Public investment and human capital models further underscore the long-term consequences of constrained fiscal space, showing how underinvestment in productive sectors can weaken growth potential and perpetuate dependence on borrowing.

Collectively, this body of literature enables the study to situate Sierra Leone's FY2026 budget within established economic patterns observed in comparable low-income economies. It also ensures that the analysis of fiscal space and debt servicing is theoretically informed, empirically grounded, and aligned with international public-finance research standards.

Analytical Framework

The analytical framework is built around the relationship between:

- **Independent Variable:** Public debt servicing (interest + amortization)
- **Dependent Variable:** Fiscal space (the resources available for non-debt spending such as health, education, agriculture, and capital expenditure)

The objective is to determine how much budgetary flexibility remains after debt servicing has been deducted and how this affects development spending.

Descriptive Analysis

A descriptive approach is used to summarise:

- debt-service totals
- proportions of the national budget allocated to debt
- the scale of domestic vs external interest obligations
- their shares within the Consolidated Fund and overall fiscal envelope

This descriptive layer provides a clear picture of how much of the FY 2026 budget is absorbed by debt servicing

Ratio Analysis and Fiscal Metrics

To assess the scale and implications of public debt servicing in the FY2026 budget, the study employs a ratio-based analytical framework commonly used in public finance and debt sustainability assessments. Fiscal ratios provide a clear and comparable way to evaluate how debt obligations interact with available fiscal space and competing expenditure priorities.

The analysis proceeds through four structured steps.

- **Extract the FY2026 figures** for debt servicing and non-wage recurrent spending.
- **Compute debt-service ratios**, including:
 - ✓ Debt service as % of the Consolidated Fund Appropriation
 - ✓ Debt service as % of total expenditure + net lending
- **Compare public-debt allocations** with allocations to development sectors.

- **Interpret fiscal implications** using established economic literature and debt-sustainability theories.

This structured approach ensures that the analysis remains consistent with international public-finance standards and grounded in the realities of Sierra Leone’s 2026 fiscal position.

Debt Servicing in Context: A Short-Term Comparative Perspective

While this study is analytically anchored on the FY2026 Appropriation Act, a short-term comparison with FY2024 and FY2025 is introduced to contextualise the scale and persistence of public debt servicing pressures. This comparative perspective is not intended to shift the focus of the analysis, but rather to assess whether the FY2026 debt burden represents a temporary fiscal deviation or a continuation of an emerging trend in public finance management.

Table 1 presents public debt servicing across three fiscal years, highlighting the evolution of total debt charges and their composition between domestic and external obligations. The figures show that debt servicing has remained consistently high, with a marked increase between FY2024 and FY2025 and sustained pressure in FY2026.

Table 1: Public Debt Servicing and Composition, FY2024–FY2026 (NLe billions)

Fiscal Year	Total Debt Charges	Domestic Debt Service	External Debt Service
FY2024	6.14	3.80	2.34
FY2025	9.32	7.11	2.21
FY2026	8.63	6.52	2.10

Source: Appropriation Acts (2024–2026), Budget Estimates, Ministry of Finance, Sierra Leone.

Note: Figures are rounded to two decimal places.

The data reveal three important patterns relevant to the FY2026 fiscal analysis. First, public debt servicing has increased substantially over the period, rising sharply between FY2024 and FY2025 before remaining elevated in FY2026. This pattern reflects the growing fiscal burden associated with accumulated borrowing and highlights the increasing share of government resources devoted to debt repayment.

Second, domestic debt servicing dominates the structure of debt payments in all three fiscal years, accounting for the majority of total debt charges. The sharp increase in domestic debt servicing between FY2024 and FY2025 suggests a growing reliance on domestic financing instruments, particularly short-term securities, to meet fiscal requirements.

Third, although external debt servicing remains relatively stable over the period, the rising weight of domestic obligations places additional pressure on fiscal space. Domestic debt instruments typically carry higher interest costs and shorter maturities, which increases rollover risks and places sustained pressure on government liquidity.

The patterns presented in Table 1 therefore highlight not only the magnitude of Sierra Leone’s debt-service obligations but also their changing composition. The relative stability of external debt servicing contrasts with the volatility observed in domestic obligations, reinforcing concerns about the maturity structure and cost of domestic borrowing. These dynamics suggest that the increasing reliance on domestic debt may further constrain fiscal flexibility and limit the government’s capacity to allocate resources toward development priorities.

To further illustrate these dynamics, **Figure 1** presents a graphical representation of the evolution of total debt servicing and its domestic and external components across the three fiscal years. The visual representation highlights the sharp increase in total debt servicing between FY2024 and FY2025 and underscores the growing contribution of domestic debt obligations leading into FY2026.

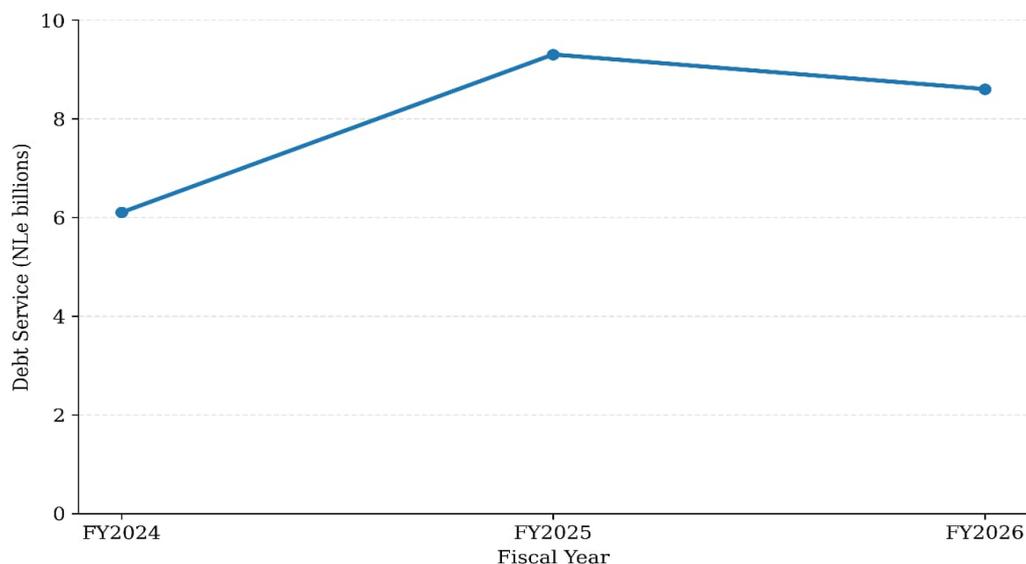


Figure 1: Public Debt Service Trend in Sierra Leone (FY2024–FY2026)

Source: Ministry of Finance, Sierra Leone.

Budget Estimates and Appropriation Act (FY2024–FY2026).

This figure illustrates the evolution of total public debt servicing across three fiscal years. Debt servicing increased sharply between FY2024 and FY2025 before remaining elevated in FY2026. The persistence of high debt-service obligations indicates that fiscal pressures associated with past borrowing have become structurally embedded in the national budget.

When considered alongside the FY2026 fiscal data, this pattern reinforces the central argument of the study. The allocation of NLe 8.63 billion to public debt charges in FY2026 is not merely a short-term fiscal fluctuation but part of a sustained trend of elevated debt servicing. As a result, a significant share of government resources remains pre-committed to past borrowing, thereby constraining the fiscal space available for new development initiatives.

More broadly, the observed trajectory underscores the structural nature of Sierra Leone's fiscal challenge. With debt-service obligations absorbing an increasing portion of public resources, the government's ability to expand development spending in critical social and productive sectors becomes progressively limited.

This comparative perspective strengthens the FY2026 analysis by demonstrating that current fiscal constraints are not cyclical but embedded in the country's debt structure. Without deliberate reforms to debt composition, maturity structure, and borrowing strategy, rising debt-service obligations are likely to continue crowding out development expenditure and weakening the government's capacity to respond to economic and social pressures.

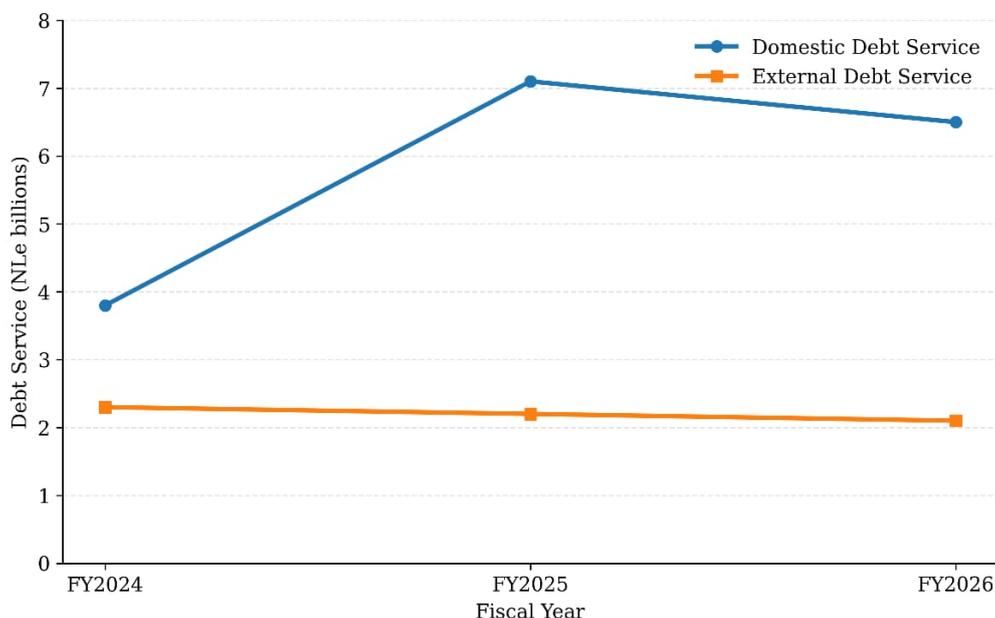


Figure 2: Domestic vs External Debt Service Composition (FY2024–FY2026)

Source: Ministry of Finance, Sierra Leone.

Budget Estimates and Appropriation Act (FY2024–FY2026).

The figure highlights the dominance of domestic debt servicing within Sierra Leone’s fiscal structure. Domestic obligations account for the majority of total debt charges in each fiscal year, reflecting the government’s reliance on short-term domestic borrowing instruments. External debt servicing remains comparatively stable but continues to expose the budget to exchange-rate risks.

Importantly, the dominance of domestic debt servicing magnifies fiscal vulnerability. Shorter maturities and higher interest rates associated with domestic instruments increase rollover risk and limit budgetary flexibility. As a result, even when total expenditure expands, the scope for reallocating resources toward social and productive sectors remains restricted.

Exclusion of Wages and Salaries

Although wages and salaries are typically the largest expenditure item, they are intentionally excluded from the core fiscal-space analysis. This exclusion is justified because:

- wages are mandatory and immovable
- they do not interact directly with debt management decisions
- including them would distort the evaluation of competing fiscal priorities
- the research question focuses on development space, not payroll commitments

This ensures the analysis remains focused on the interaction between ‘debt servicing’ and ‘discretionary development expenditure.’

Synthesis of Data and Theory

The final interpretation synthesises:

1. Theoretical expectations (debt overhang, crowding-out, rollover risk)
2. Empirical reality (budget allocations, debt structure, fiscal pressures)

3. Policy implications (need for reforms, transparency, debt re-profiling, and revenue strengthening)

This synthesis allows the paper to make informed conclusions about how debt servicing shapes Sierra Leone's fiscal space going into FY 2026.

Methodological Limitations

All empirical and policy-oriented research is subject to methodological constraints, and this study is no exception. The first limitation arises from *the reliance on official fiscal documents*, including the Appropriation Act, Budget Estimates, and Budget Speech. While these documents represent the most authoritative statement of government fiscal intentions, they may be subject to revision during the fiscal year through supplementary budgets or expenditure reallocations. As a result, the analysis reflects the legally approved framework rather than subsequent execution outcomes.

A second limitation relates to the *absence of real-time expenditure outturn data*. The analysis is necessarily based on planned allocations rather than actual spending. This restricts the ability to assess implementation efficiency, spending delays, or deviations between budgeted and executed expenditures. However, the focus of the study is fiscal structure and constraint rather than execution performance, making planned figures appropriate for the research objectives.

Third, the study faces *limited access to granular data on the maturity structure of domestic debt*. While aggregate domestic and external debt-service figures are available, detailed information on instrument-specific maturities, rollover schedules, and interest rate variability remains restricted. This limits a more precise assessment of refinancing risks and interest rate sensitivity within the domestic debt portfolio.

Finally, the *absence of fully published and consistent quarterly debt reports* constrains the depth of time-series analysis. Regular quarterly disclosures would allow for finer trend analysis and more robust empirical testing of short-term fiscal dynamics. Their limited availability reduces the scope for high-frequency comparisons across fiscal years.

Despite these constraints, the study's findings remain robust. The Appropriation Act is a legally binding fiscal instrument that defines expenditure priorities and obligations for the fiscal year. In addition, the analysis is reinforced by independent assessments from the International Monetary Fund and the World Bank, which provide external validation of debt sustainability risks and fiscal conditions. Taken together, these sources ensure that the conclusions drawn are credible, policy-relevant, and grounded in authoritative data.

FINDINGS

This section presents the core empirical results of the study. It draws directly from the FY2026 Appropriation Act, the FY2026 Budget Estimates, the Budget Speech, and the IMF–World Bank debt assessments. The findings focus on the scale of public debt servicing, its proportional weight within the national budget, and its implications for fiscal space and public investment.

Beyond presenting descriptive statistics, the findings also interpret how debt-servicing obligations shape fiscal policy choices and budgetary trade-offs. Particular attention is given to the composition of debt payments, distinguishing between domestic and external obligations and their respective pressures on fiscal space. By linking these budget figures to broader fiscal sustainability concerns, the analysis highlights the structural implications of rising debt servicing for development financing. The section therefore combines quantitative evidence

with institutional interpretation to provide a clearer picture of how public debt dynamics influence expenditure priorities in Sierra Leone

The empirical analysis of the FY2026 budget is organised around three core components:

1. Quantitative findings from the FY2026 budget
2. Qualitative interpretation of fiscal space pressures
3. Risk analysis based on debt composition and sustainability metrics

Structure of the FY2026 Budget and Fiscal Envelope

The FY2026 Appropriation Act authorises a total of NLe 27,717,307,300 to be spent from the Consolidated Fund. This constitutes the legally approved expenditure for Ministries, Departments and Agencies (MDAs), excluding statutory funds and off-budget components. Within this amount, NLe 8,626,934,400 is allocated to public debt charges. This means that a substantial proportion of government resources is pre-committed to debt servicing before any discretionary development spending can be considered.

The Ministry of Finance’s fiscal framework extends beyond this legal appropriation to include capital financing and other expenditures, producing a “total expenditure-plus-net-lending envelope of around NLe 30 billion.” This broader envelope reflects the government’s full financing requirements for the fiscal year. This structure demonstrates that debt service is not a marginal expenditure item. It sits at the center of fiscal decision-making and materially alters the government’s spending flexibility.

This budget structure highlights the extent to which fiscal policy in Sierra Leone is increasingly shaped by pre-existing financial commitments. When a substantial portion of the expenditure envelope is allocated to debt servicing before other priorities are considered, the government’s ability to undertake discretionary spending becomes constrained. In practical terms, this means that investments in critical sectors such as education, health, infrastructure, and agriculture must compete for a reduced share of the fiscal envelope. Consequently, debt servicing functions not merely as a financial obligation but as a structural determinant of budgetary priorities. The FY2026 fiscal framework therefore reflects a situation in which past borrowing decisions continue to shape present policy choices and limit the scope for development-oriented expenditure.

Table 2: Structure of the FY2026 Fiscal Envelope (Public-Debt Focused)

Fiscal Indicator	Amount (NLe)	Share of Total (%)
Consolidated Fund Appropriation	27,717,307,300	100
Public Debt Charges	8,626,934,400	31.1
Non-Debt Expenditure (Residual)	19,090,372,900	68.9
Total Expenditure + Net Lending (Projected Envelope)	30,000,000,000	–
Public Debt as % of Total Envelope	–	28.8

Source: Appropriation Acts FY2026, Budget Estimates, Ministry of Finance, Sierra Leone.

The first major finding concerns the scale and weight of public debt servicing within the FY2026 fiscal framework. According to the Appropriation Act, public debt charges for the 2026 financial year amount to NLe 8,626,934,400. This figure alone signals the central role that debt obligations now play in shaping budgetary outcomes and expenditure priorities.

In absolute terms, this allocation positions public debt servicing as the single largest non-personnel expenditure item in the national budget. When compared across all recurrent and capital commitments, debt charges also emerge as one of the largest overall line items, rivalled only by wages and salaries. This ranking is significant because it illustrates that debt servicing is no longer a residual or secondary obligation; rather, it has become a dominant claim on public resources.

The implications of this allocation become even clearer when debt servicing is expressed relative to the size of the fiscal envelope. When measured against the Consolidated Fund appropriation, public debt charges account for approximately 31 percent of total authorised spending. When considered within the broader framework of total expenditure-plus-net-lending, debt servicing still absorbs about 29 percent of overall government outlays.

These ratios provide a critical insight into the structure of fiscal space in FY2026. They indicate that almost one-third of the government's effective spending capacity is pre-committed to servicing existing debt obligations before allocations are made to social services, productive sectors, or public investment. As a result, fiscal decisions in other areas are necessarily constrained by the need to honour past borrowing.

This concentration of expenditure on debt servicing highlights the limited flexibility available to policymakers and underscores the trade-offs inherent in the current fiscal structure. It also sets the analytical foundation for examining how such a large debt burden affects allocations to priority sectors and the government's capacity to pursue development objectives.

Breakdown of Public Debt Charges

The FY2026 Budget Estimates provide a precise classification of the NLe 8.63 billion public debt charges:

Domestic Interest Payments

➤ **NLe 6,524,934,400**

Domestic interest payments account for nearly 76% of total debt charges, confirming that Sierra Leone's debt burden is predominantly driven by domestic borrowing. This aligns with the IMF–World Bank DSA, which repeatedly warns that short-term domestic instruments, especially treasury bills – create:

- rollover risk
- high interest costs
- liquidity pressure on government finances
- crowding-out of private-sector credit

The FY2026 numbers reinforce these concerns, as domestic interest has again risen relative to previous years.

External Interest Payments

➤ **NLe 2,102,000,000**

External debt servicing is considerably lower in nominal terms but still significant. Although most external loans remain concessional, the Budget Speech highlights growing exchange-rate pressures, meaning that depreciation of the Leone increases the real cost of repaying foreign-denominated debt. External interest now constitutes approximately:

- 24% of total debt charges, and
- around 7% of the total appropriation

While concessional loans remain structurally cheaper in nominal terms, their denomination in foreign currency exposes the economy to exchange-rate risk. Currency depreciation increases the local-currency cost of servicing external debt, even when interest rates are low. This foreign-exchange exposure introduces a macroeconomic vulnerability, particularly for an economy with limited export earnings and a narrow foreign-exchange base, as it amplifies fiscal pressure during periods of external shock or exchange-rate volatility.

Public Debt Servicing in Relation to Functional Sector Allocations

The rising weight of public debt servicing in the FY2026 budget has a measurable constraining effect on Sierra Leone’s fiscal space. When a significant portion of the Consolidated Fund is pre-committed to debt charges, the government’s capacity to expand investment in social and productive sectors becomes structurally limited. This constraint is not theoretical; it is visible in the pattern of allocations across key sectors that directly influence human development and long-term productivity.

The FY2026 Appropriation Act for Sierra Leone is organised primarily around institutional votes of Ministries, Departments and Agencies (MDAs), rather than consolidated economic classifications such as goods and services, transfers, or capital expenditure. This structural feature requires sectoral analysis to be conducted through ministerial allocations, rather than aggregated functional spending categories.

Public debt servicing is allocated NLe **8,626,934,400**, making it one of the largest single compulsory outlays in the FY2026 fiscal framework. Unlike discretionary sector spending, debt servicing represents a legally binding obligation that cannot be deferred without significant macroeconomic consequences.

To assess the opportunity cost of this allocation, public debt charges are compared with key development-oriented ministries as reflected in the Appropriation Act. This comparison helps illustrate how debt-servicing obligations interact with national expenditure priorities. By examining allocations to sectors such as education, health, agriculture, and infrastructure, the analysis highlights the relative weight of debt payments within the fiscal envelope. The comparison provides a clearer perspective on the extent to which debt obligations compete with development financing. It also allows for a more concrete evaluation of how fiscal space constraints translate into real budgetary trade-offs.

Table 3: Social and Productive Sector Allocations vs Public Debt Charges

Sector / Ministry	Allocation (NLe)
Public Debt Charges	8,626,934,400
Education Sector	1,464,533,500
Ministry of Health	132,192,700
Ministry of Agriculture and Food Security	95,335,000
Ministry of Water Resources and Sanitation	9,606,500

Table 3 illustrates the relative scale of public debt servicing compared with allocations to key social and productive sectors in the FY2026 national budget. The comparison reveals a pronounced imbalance in the structure of public expenditure. With NLe 8,626,934,400 allocated to debt charges, public debt servicing significantly exceeds the fiscal resources directed toward critical sectors such as health, agriculture, and water combined.

Although the education sector (Vote Codes 300–301) receives the largest allocation among the selected sectors, its funding remains substantially lower than the amount committed to servicing public debt. The contrast is even more evident for the Ministry of Health (Vote Code 304), the Ministry of Agriculture and Food Security (Vote Code 401), and the Ministry of Water Resources and Sanitation (Vote Code 414), which receive comparatively modest allocations despite their central importance for human development, food security, and public welfare.

Youth- and employment-focused institutions also operate within constrained fiscal envelopes. Agencies responsible for technical and vocational skills development, youth empowerment, and enterprise support continue to receive fragmented and relatively modest funding. This limits their ability to expand skills-development pipelines, apprenticeship programmes, and youth enterprise financing in a sustained and coordinated manner.

This pattern highlights the opportunity cost associated with high debt obligations. When a large share of fiscal resources is pre-committed to servicing past borrowing, the government's ability to expand investment in essential services and productive sectors becomes structurally limited. As a result, fiscal decisions in other areas are constrained by the need to prioritise creditor obligations over development-oriented spending.

The figures therefore reinforce the central argument of this study: rising debt servicing has become a dominant claim on Sierra Leone's fiscal resources. As debt obligations increase, fiscal space for development spending becomes progressively narrower, limiting the government's ability to expand investment in key sectors that support long-term economic growth. In effect, the FY2026 fiscal framework reflects a shift toward debt-driven budgeting, where the obligation to service past borrowing increasingly determines the scope of present development spending. Over time, this dynamic risks reinforcing a cycle in which underinvestment in human capital and productive sectors weakens growth potential, limits domestic revenue mobilisation, and increases future reliance on borrowing, thereby further tightening fiscal space.

Opportunity Cost of High Debt Servicing

The opportunity cost of debt servicing is not abstract. It has real consequences for service delivery, infrastructure expansion, and human capital development. Every Leone assigned to public debt servicing represents a Leone that cannot be invested in hospitals, schools, irrigation facilities, rural roads, or employment programmes. Over time, this creates enduring development deficits that are difficult to reverse. Opportunity cost analysis is applied here to demonstrate what is displaced by debt payments, rather than simply measuring the size of the payments themselves.

Fiscal Compression and Social Sector Constraints

The scale of public debt servicing produces a measurable compression effect on social sector financing. While statutory obligations to creditors are met in full, development-oriented ministries operate within severely restricted fiscal ceilings.

Health sector financing, at NLe 132,192,700, reflects a constrained ability to expand hospital infrastructure, procure essential medical supplies, and strengthen primary healthcare systems. Given Sierra Leone's persistent public health challenges, this level of funding demonstrates the opportunity cost imposed by debt servicing.

Similarly, agricultural funding, at NLe 95,335,000, remains weak relative to national food security needs. Agriculture remains the largest employer in the country, yet its fiscal allocation is overshadowed by debt obligations.

Water and sanitation financing, at NLe 9,606,500, highlights the acute fiscal limitations in the provision of clean water infrastructure and sanitation services, sectors that have direct implications for public health and environmental sustainability.

These patterns indicate that fiscal decisions are heavily constrained by historical debt accumulation rather than current development imperative.

Debt Servicing as a Binding Fiscal Constraint

Public debt servicing in Sierra Leone has moved beyond the status of a normal budgetary line item. It functions as a binding macro-fiscal constraint that shapes the entire structure of public expenditure. At NLe 8,626,934,400, debt servicing absorbs nearly one-third of appropriated resources. This reduces discretionary fiscal space and increases dependence on new borrowing to finance both development expenditure and recurrent government operations. The fiscal architecture observed in FY2026 suggests a shift from development-driven budgeting to debt-driven budgeting, where creditor obligations dictate expenditure sequencing and prioritisation.

Structural Vulnerabilities in Debt Composition

The observed fiscal pressure is reinforced by the structure of Sierra Leone's debt portfolio. Domestic debt remains dominated by short-term treasury instruments, increasing rollover frequency and interest rate exposure. Frequent refinancing of domestic obligations elevates liquidity risk and increases fiscal uncertainty.

External debt, while largely concessional, introduces exchange-rate vulnerability within an economy characterised by foreign currency shortages and external balance pressures.

The combined effect of these vulnerabilities is a fiscal system that is highly sensitive to interest rate movements, exchange rate fluctuations, and shifts in domestic financial market conditions.

Consolidated Findings from the FY2026 Fiscal Profile

This analysis establishes several key findings:

1. Public debt servicing, at NLe 8,626,934,400, represents a structurally dominant component of public expenditure.
2. Debt obligations exceed the allocations to health, agriculture, and water sectors combined.
3. Sectoral ministries directly linked to human development operate under severe fiscal compression.
4. Domestic debt structure heightens rollover and interest rate risk.
5. External debt introduces persistent foreign exchange exposure.
6. Fiscal decision-making is increasingly shaped by debt service requirements rather than development planning.

Discussion

The FY2026 fiscal framework highlights a structural shift in Sierra Leone's public finance system in which debt servicing has become a dominant determinant of budgetary allocation. With public debt charges reaching NLe 8.63 billion, the government's fiscal space is significantly constrained, limiting its ability to expand development-oriented spending. Rather

than functioning as a supplementary fiscal obligation, debt servicing now represents a central organising element of the budget.

This pattern is consistent with the theoretical expectations of debt overhang and fiscal crowding-out discussed earlier in the literature. When a large share of fiscal resources is pre-committed to debt repayment, discretionary spending on social and productive sectors becomes increasingly compressed. In Sierra Leone's case, allocations to key sectors such as health, agriculture, and water remain substantially lower than debt-service obligations, demonstrating the tangible opportunity cost of high public debt.

The comparison between debt charges and sectoral allocations reveals a persistent imbalance between financial obligations and development priorities. Ministries responsible for human capital development operate within constrained fiscal ceilings while creditor payments remain fully protected. Over time, this dynamic risks weakening the foundations of long-term growth by limiting investment in infrastructure, education quality, healthcare systems, and agricultural productivity.

The interaction between high debt service, weak domestic revenue mobilisation, and elevated inflationary pressures creates a cycle of fiscal dependency. As revenues struggle to keep pace with obligations, the government faces increasing pressure to borrow simply to maintain basic operations. This pattern reinforces debt accumulation and further compresses fiscal space.

Domestic debt dynamics intensify this challenge. The heavy reliance on short-term treasury instruments exposes the government to frequent refinancing risk and interest rate volatility. Each refinancing cycle increases vulnerability to market shifts and raises the cost of borrowing. External debt, although concessional in nature, introduces foreign exchange risks that strain the country's balance of payments and limit monetary policy flexibility.

The fiscal outcomes observed in FY2026 are consistent with the author's earlier findings on debt sustainability in Sierra Leone's public finance system. As previously argued, domestic debt can provide stability only when carefully structured and controlled. When dominated by short-term instruments, it becomes a source of instability rather than resilience. Similarly, external borrowing becomes counterproductive when not anchored in concessional terms and growth-enhancing investments.

Overall, the FY2026 budget illustrates a fiscal structure where past borrowing decisions significantly shape present development capacity. Without decisive reforms in debt management, revenue mobilisation, and fiscal prioritisation, public debt servicing will continue to act as a binding constraint on Sierra Leone's economic transformation.

Policy Implications and Recommendations

The fiscal evidence from the FY2026 budget reinforces the urgent need for structural reforms in debt management, revenue mobilisation, and public expenditure prioritisation. Public debt servicing has evolved from a secondary fiscal obligation into a dominant structural feature of Sierra Leone's budget framework. This shift carries significant policy implications for economic stability, social development, and long-term growth strategy.

A first policy implication is that debt sustainability must become the central organising principle of fiscal policy rather than a peripheral technical concern. When debt servicing consumes close to one-third of national expenditure, it effectively competes with essential public services for scarce resources. This requires policymakers to treat debt not as a passive legacy issue, but as an active policy variable that must be controlled through disciplined

borrowing and transparent risk assessment. Debt ceilings, debt-service-to-revenue thresholds, and legally binding fiscal rules should be embedded within the national budget framework and adhered to consistently.

Second, domestic revenue mobilisation must be fundamentally strengthened. Sierra Leone's persistent dependence on borrowing is largely a reflection of weak and narrow revenue collection systems. Expanding the tax base, reducing discretionary exemptions, strengthening customs enforcement, and digitising tax administration are no longer optional reforms; they are structural necessities. Without improved revenue performance, debt will remain the default financing tool rather than a strategic investment instrument.

Third, the structure of public debt itself requires urgent reform. The heavy reliance on short-term domestic instruments exposes the government to perpetual rollover risk and volatile interest obligations. A deliberate shift toward longer-term domestic bonds would reduce refinancing pressure and stabilise fiscal planning. This transition must be carefully sequenced to avoid market disruption, but it is essential for restoring fiscal predictability and lowering long-term borrowing costs.

Fourth, external borrowing should be strictly limited to concessional and semi-concessional sources. Borrowing for recurrent consumption must be gradually eliminated. External loans should be directly linked to projects with measurable economic returns, particularly in infrastructure, agriculture, energy, and water systems. Where possible, grants and blended finance instruments should be prioritised. This reduces foreign exchange exposure and ensures that borrowed funds translate into productive capacity rather than future liabilities.

Fifth, improved public financial management is critical. Leakages in procurement, weak project appraisal systems, and poor monitoring of public investments erode the value of borrowed resources. Stronger expenditure controls, transparent procurement frameworks, and performance-based budgeting can ensure that every Leone borrowed or collected delivers measurable public value. Without such reforms, even concessional borrowing will fail to produce sustainable development outcomes.

Sixth, the development of domestic capital markets represents a medium- to long-term solution to current financing constraints. Deepening the bond market, encouraging pension and insurance funds to invest in long-term government securities, and strengthening financial regulation can reduce dependence on volatile short-term debt instruments. This also creates a stable pool of domestic savings that can finance infrastructure and development priorities over longer horizons.

Seventh, institutional oversight and transparency must be strengthened. Parliamentary scrutiny of borrowing plans, publication of detailed debt registers, and independent audit of debt contracts are essential safeguards against non-strategic borrowing. Civil society and academic institutions should also be encouraged to engage in fiscal oversight. Transparent debt management is not only a governance requirement; it is a macroeconomic stabilisation tool.

Finally, policy reform must be anchored in a credible medium-term fiscal framework. Annual budgets should be guided by rolling three-to-five-year fiscal strategies that integrate revenue forecasts, debt sustainability analysis, and expenditure priorities into a coherent planning system. This will reduce reactive budgeting and help align fiscal decisions with national development objectives.

In summary, the FY2026 fiscal outcomes present both a warning and an opportunity. Without reform, debt servicing will continue to compress fiscal space and weaken development

outcomes. With disciplined policy action, however, Sierra Leone can reposition public debt as a strategic development tool rather than a structural constraint.

Conclusion

The FY2026 budget framework provides a clear illustration of the growing tension between public debt obligations and development ambitions in Sierra Leone. With public debt charges absorbing approximately one-third of total government expenditure, the country faces a structural constraint rather than a temporary fiscal imbalance. This constraint is not merely a matter of accounting; it reflects deeper institutional, structural, and historical weaknesses in fiscal governance, revenue mobilisation, and debt management.

The evidence presented in this study demonstrates that debt servicing has evolved into a dominant fiscal force. Resources that could have been directed toward education, healthcare, agriculture, water systems, infrastructure, and employment-generating investments are increasingly diverted toward meeting creditor obligations. This dynamic narrows fiscal space, weakens long-term human capital formation, and reduces the government's capacity to respond to social and economic shocks.

The analysis also confirms the concerns raised in the author's earlier work, which warned that an imbalance between domestic and external borrowing, combined with a heavy reliance on short-term domestic instruments, would undermine fiscal sustainability. The FY2026 fiscal outcomes reinforce those warnings and suggest that the current debt trajectory is approaching a critical threshold where policy flexibility becomes severely limited.

However, the findings also suggest that Sierra Leone is not without options. Strategic reforms in revenue mobilisation, domestic debt structure, concessional external financing, and public financial management can reverse the trend of declining fiscal space. Public debt, if managed with discipline and transparency, can still serve as a tool for development rather than a persistent obstacle.

Ultimately, sustainable fiscal policy is not defined by the absence of debt, but by the capacity to manage debt in ways that enhance national productive capacity and social welfare. The central policy challenge for Sierra Leone is therefore to restore balance: ensuring that debt supports growth while protecting the fiscal space required for essential public investment. Without such a recalibration, the risk is not only fiscal instability, but the gradual erosion of development potential.

This study contributes to policy debate by highlighting the scale of the problem, clarifying its structural roots, and outlining credible reform pathways. It is hoped that this work will inform policymakers, researchers, and development partners seeking to align Sierra Leone's fiscal strategy with long-term economic transformation.

Conflict of Interest

The author declares that there is no conflict of interest regarding the publication of this paper.

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